

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Marquette Housing Commission	County Marquette
Audit Date 9/30/04	Opinion Date 12/30/04	Date Accountant Report Submitted to State: 2/21/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

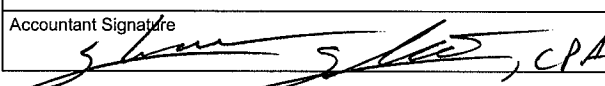
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address Po Box 828	City Iron Mountain	State MI	ZIP 49801
Accountant Signature 		Date 2-21-05	

MARQUETTE HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with additional information)

For the Year Ended September 30, 2004

MARQUETTE HOUSING COMMISSION

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Marquette Housing Commission
Marquette, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Marquette Housing Commission as of and for the year ended September 30, 2004 as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Audit Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Marquette Housing Commission as of September 30, 2004, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "*Government Auditing Standards*", we have also issued our report dated December 30, 2004 on our consideration of the Marquette Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with "*Government Auditing Standards*" and should be read in conjunction with this report in considering the results of our audit.

As described in Note A to the financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Financial statements-and Management's Discussion and Analysis-For State and Local Governments and Governmental Accounting Standards Board Statement No 37, an amendment of Statement No. 34. This results in a change in the format and content of the financial statements.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Commission taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, ifs fairly stated, in all material respects, in relation to basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

December 30, 2004

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Marquette Housing Commission's financial performance provides an overview of the financial activities for the year ended September 30, 2004. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The Commission's net assets were reported for the first time under GASB 34. As such, no comparisons with prior years will be made. In future years, comparative information will be presented in various schedules throughout the MD&A. Net assets for the entire Commission were reported at \$3,924,383.
- During the year, the Commission's operating revenues totaled \$1,690,560, or 99.2% of total revenues, while operating expenses totaled \$1,741,903 or 100% of total expenses.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities and the Statement of Revenues Expenses and Changes in Net Assets (on pages 9 - 11) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help it cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

THE COMMISSION AS A WHOLE

The Commission's combined net assets at September 30, 2004 decreased \$(38,757) from September 30, 2003.

Table 1
Net Assets

Assets:	
Current and other assets	\$ 785,377
Capital assets (net)	<u>3,326,361</u>
Total assets	<u>4,111,738</u>
Liabilities:	
Current and other liabilities	151,414
Other liabilities	<u>35,941</u>
Total liabilities	<u>187,355</u>
Net Assets:	
Invested in capital assets, net of related debt	3,326,361
Unrestricted	<u>598,022</u>
Net Assets	\$ <u>3,924,383</u>

Net assets of the Commission stood at \$3,924,383. Unrestricted net business assets were \$598,022. In general, the Commission's unrestricted net assets is used to fund operations of the Commission.

Table 2
Changes in Net Assets

Revenues:

Program revenues:

Charges for services \$ 503,971

Program grants & subsidies 1,116,686

General revenues:

Other income 69,903

Investment earnings 12,897

Total revenues 1,703,457

Program Expenses:

Operating expenses 1,741,903

Loss on sale of fixed assets 311

Total expenses 1,742,214

Decrease in net assets (38,757)

**Net assets – beginning
of period**

3,963,140

**Net assets – end
of period**

\$ 3,924,383

BUSINESS-TYPE ACTIVITIES

Revenues for the Commission totaled \$1,703,457. The Commission's average unit months leased on a monthly basis had increased slightly during the current year. In addition, HUD operating funds and capital funding grants had decreased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses. Additionally, the Commission was forced to use a portion of its cash reserves to cover expenses related to a parking structure.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004, the Commission had \$10,192,339 invested in a variety of capital assets including land, equipment and buildings as follows:

Table 3
Capital Assets at September 30, 2004
Business – Type Activity

Land and improvements	\$ 1,104,982
Buildings and improvements	8,473,982
Equipment	<u>613,375</u>
Total cost	10,192,339
Less accumulated depreciation	<u>6,865,978</u>
NET FIXED ASSETS	<u>\$ 3,326,361</u>

The Commission invested \$397,518 in capital assets during the year ended September 30, 2004.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2004/2005 budget. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues that are beyond the Commission's control. All of these were taken into consideration during the 2004/2005 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Bonnie Peltó, at 316 Pine Street, Marquette, Michigan 49855, or call 906-226-7559.

MARQUETTE HOUSING COMMISSION

STATEMENT OF NET ASSETS Proprietary Fund

September 30, 2004

CURRENT ASSETS:	
Cash and equivalents	\$ 396,651
Accounts receivable	4,386
Investments	366,550
Inventory	<u>17,790</u>
TOTAL CURRENT ASSETS	<u>785,377</u>
NONCURRENT ASSETS:	
Capital assets	10,192,339
Less accumulated depreciation	<u>(6,865,978)</u>
NET CAPITAL ASSETS	<u>3,326,361</u>
TOTAL ASSETS	<u>\$ 4,111,738</u>
LIABILITIES:	
Accounts payable	\$ 24,738
Accrued liabilities	<u>126,676</u>
TOTAL CURRENT LIABILITIES	<u>151,414</u>
OTHER LIABILITIES	<u>35,941</u>
TOTAL LIABILITIES	<u>187,355</u>
NET ASSETS:	
Investment in capital assets, net of related debt	3,326,361
Unrestricted net assets	<u>598,022</u>
NET ASSETS	<u>\$ 3,924,383</u>

The accompanying notes to financial statements are an integral part of this statement.

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MARQUETTE HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2004

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
					<u>Business-Type Activities</u>
BUSINESS-TYPE ACTIVITIES:					
Public Housing	<u>\$ 1,741,903</u>	<u>\$ 503,971</u>	<u>\$ 1,116,686</u>	<u>\$ -</u>	<u>\$ (121,246)</u>
General revenues:					
Unrestricted investment earnings					\$ 12,897
Other					<u>69,592</u>
Total general revenues					<u>82,489</u>
Changes in net assets					<u>(38,757)</u>
Net assets, beginning of year					<u>3,963,140</u>
Net assets, end of year					<u>\$ 3,924,383</u>

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The accompanying notes to the financial statements are an integral part of this statement.

MARQUETTE HOUSING COMMISSION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS Proprietary Fund

For the Year Ended September 30, 2004

OPERATING REVENUES:

Tenant revenue	\$ 503,971
Program grants-subsidies	1,116,686
Other income	<u>69,903</u>

TOTAL OPERATING REVENUES	<u>1,690,560</u>
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OPERATING EXPENSES:

Administration	366,806
Tenant services	3,085
Utilities	289,299
Maintenance	420,315
General	100,816
Housing assistance payments	153,453
Depreciation	<u>408,129</u>

TOTAL OPERATING EXPENSES	<u>1,741,903</u>
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OPERATING (LOSS)	<u>(51,343)</u>
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OTHER INCOME (EXPENSES):

Interest income	12,897
(Loss) on sale of fixed assets	<u>(311)</u>

TOTAL OTHER INCOME (EXPENSES)	<u>12,586</u>
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CHANGE IN NET ASSETS	<u>(38,757)</u>
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NET ASSETS, BEGINNING OF YEAR	<u>3,963,140</u>
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NET ASSETS, END OF YEAR	<u>\$ 3,924,383</u>
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The accompanying notes to financial statements are an integral part of this statement.

MARQUETTE HOUSING COMMISSION

STATEMENT OF CASH FLOWS Proprietary Fund

For the Year Ended September 30, 2004

OPERATING ACTIVITIES:

Cash received from customers	\$ 516,007
Cash received from grants and subsidies	1,116,686
Cash payments to suppliers for goods and services	(556,822)
Cash payments for wages and related benefits	(759,472)
Payment in lieu of taxes	(10,722)
Other receipts	<u>69,903</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>375,580</u>
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CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of fixed assets	<u>(397,518)</u>
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NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(397,518)</u>
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INVESTING ACTIVITIES:

Proceeds from investments	87,986
Investment income	<u>12,897</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>100,883</u>
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NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	78,945
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CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>317,706</u>
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CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 396,651</u>
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RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ (51,343)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	408,129
Changes in assets and liabilities:	
Decrease (Increase) in receivables	12,036
Decrease (Increase) in prepaids	1,771
Increase (Decrease) in accounts payable	(50,124)
Increase (Decrease) in accrued liabilities	46,511
Increase (Decrease) in other liabilities	<u>8,600</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 375,580</u>
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The accompanying notes to financial statements are an integral part of this statement.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Marquette Housing Commission (Commission) was formed under the criteria established for low income housing programs by the United States Department of Housing and Urban Development. The Commission operates under a board of commissioners appointed by the City Council.

The Commission, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *"The Financial Reporting Entity"*.

The criteria established by the governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was been determined that there are no component units of the Marquette Housing Commission nor is the Commission a component unit of another entity.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

During the year the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Changes in Net Assets are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.
- c. Inventory – Inventory is recorded at the lower of cost or market and primarily consisted of maintenance supplies and materials.
- d. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.
- e. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$1,000 per item. In addition, all appliances and computers are to be capitalized regardless of cost.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

f. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the City. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.

g. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets.- Consists of capital assets, net of accumulated depreciation
2. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Commission programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that is to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on October 1st. The operating budget includes proposed expenses and the means of financing them. Prior to September 30th, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to September 30th.

The fiscal 2004 budget was adopted on April 26, 2003 and amended on December 16, 2003 and August 31, 2004.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

(Continued)

NOTE B - CASH AND INVESTMENTS

The Commission maintains segregated cash and investment accounts which are specific to the activity to which they are available.

CASH AND EQUIVALENTS

Cash and equivalents consisted of:

Petty cash	\$ 300
Cash in checking	344,529
Savings accounts	<u>51,822</u>
TOTAL	<u>\$ 396,651</u>

The Commission held cash and equivalents in excess of FDIC insurance limits, at September 30, 2004, in the amount of \$268,062.

Cash and equivalents are categorized as follow:

Category 1— Insured or registered, with securities held by the Commission or its agent in the Commissions name.

Category 2— Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3— Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commissions name.

	<u>Category</u>			<u>Bank</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>
Checking account	\$344,529	\$ -	\$ -	\$483,187
Money market	<u>51,822</u>	<u>-</u>	<u>-</u>	<u>51,822</u>
TOTAL	<u>\$396,351</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$535,009</u>

ANDERSON, TACKMAN
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CERTIFIED PUBLIC ACCOUNTANTS



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

STATUTORY AUTHORITY

Michigan law (Act 196 PA 1997) authorizes the Commission to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers' acceptance of United States Banks.
- f. Obligations of this State or any of its political subdivisions at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-4 to 80a-64, with the authority to purchase investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperation's act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Michigan law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

INVESTMENTS

Investments are stated at market value.

Investments consisted of a certificates of deposit and were in accordance with State of Michigan Statutes. Those statutes do not mandate that accounts be partially or fully insured or collateralized. Investments are categorized as follows:

Category 1 - Insured or registered, with securities held by the Commission or its agent in the Commission's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name

	<u>Category</u>			<u>Market</u>	<u>Bank</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>	<u>Balance</u>
Certificates of deposit	<u>\$366,560</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$366,560</u>	<u>\$366,560</u>

The Commission held investments, in excess of FDIC insurance limits, at September 30, 2004 in the amount of \$103,739.

NOTE C - EMPLOYEE RETIREMENT PLAN

Plan Description

The Commission participates in the plan through the City of Marquette. The City contributes to the Municipal Employees Retirement System of Michigan (System), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. The System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917-9755.

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

(Continued)

NOTE C – EMPLOYEE RETIREMENT PLAN (Continued)

Plan Description (Continued)

The qualified employees of the Fire Department and the Police Department of the City are included in a separate self-administered plan. The employees of the Marquette Board of Light and Power are included in a separate plan. All other full-time employees of the City and the Marquette Area Wastewater Treatment Facility are eligible to participate in the System. Benefits vest after six years for senior management and after ten years for all others. City employees who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, annual benefits are determined by negotiated contractual benefits within statute guidelines. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

Active employees with ten or more years of service, who become disabled receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service, if the actually acquired credited service is less than 10 years.

If an employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85% of the deceased member's or deceased vested former member's accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

Funding Policy

City employees are required to contribute five percent of their annual compensation to the System. The City pays the contribution for senior management. The City is required to contribute the remaining amounts necessary to fund the System, using the actuarial basis specified by statute.

Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost of \$521,245 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry age normal cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% a year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

(Continued)

NOTE C - EMPLOYEE RETIREMENT PLAN (Continued)

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information is as follows:

City of Marquette, Michigan

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN DEFINED BENEFIT PENSION PLAN REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
1999	\$399,053	100%	0
2000	456,453	100%	0
2001	521,245	100%	0

NOTE D - CAPITAL ASSETS

A summary of capital assets as of September 30, 2004 is as follows:

	<u>Balance 10-1-03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9-30-04</u>
Land	\$ 187,180	\$ -	\$ -	\$ 187,180
Land improvements	792,542	125,260	-	917,802
Building & improvements	7,930,621	543,361	-	8,473,982
Equipment	616,387	15,806	(18,818)	613,375
Construction-in-progress	<u>286,910</u>	<u>45,981</u>	<u>(332,891)</u>	<u>-</u>
	9,813,640	\$ <u>730,408</u>	\$ <u>(351,709)</u>	10,192,339
Accumulated depreciation	(6,476,357)	\$ <u>(408,129)</u>	\$ <u>18,508</u>	(6,865,978)
Net capital assets	\$ <u>3,337,283</u>			\$ <u>3,326,361</u>

Depreciation expense for the year was \$408,129.

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

(Continued)

NOTE E - COMPENSATED ABSENCES

Pursuant to the requirements of the Governmental Accounting Standards Board Statement 16, the Commission accrues a liability for compensated absences which meet the following criteria:

1. The Commission's obligation related to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the Commission has calculated a liability for sick, personal and vacation leave which has been earned but not taken by Commission employees. The amount of \$64,790 is included in liabilities in accordance with FASB Statement 43.

NOTE F - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE G - USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE H - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended September 30, 2004 totaled \$1,690,560 of which \$1,116,686 or 66% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.





SUPPLEMENTAL INFORMATION



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

September 30, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
ASSETS:						
CURRENT ASSETS:						
Cash:						
111	Cash - unrestricted	\$ 25,999	\$ 257,082	\$ 113,570	\$ -	\$ 396,651
100	Total cash	25,999	257,082	113,570	-	396,651
Accounts and notes receivables:						
122	Accounts receivable- HUD other projects	-	-	-	1,775	1,775
126	Accounts receivable- Tenant - Dwelling Rents	-	2,611	-	-	2,611
126.1	Allowance for doubtful accounts - dwelling rents	-	-	-	-	-
120	Total receivables, net of allowances for doubtful accounts	-	2,611	-	1,775	4,386
Current investments						
131	Investments - unrestricted	-	366,550	-	-	366,550
143	Inventories	-	17,790	-	-	17,790
144	Interprogram due from	-	53,386	-	-	53,386
150	TOTAL CURRENT ASSETS	25,999	697,419	113,570	1,775	838,763

See accompanying notes to financial statements



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

September 30, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
NONCURRENT ASSETS:						
Fixed assets:						
161	Land	-	187,180	-	-	187,180
162	Buildings	-	7,869,259	-	604,723	8,473,982
163	Furniture, equipment & machinery - dwellings	-	138,446	-	-	138,446
164	Furniture, equipment & machinery - administration	21,838	439,613	13,478	-	474,929
165	Leasehold improvements	-	821,496	-	96,306	917,802
166	Accumulated depreciation	(21,450)	(6,796,402)	(13,478)	(34,648)	(6,865,978)
160	Total fixed assets, net of accumulated depreciation	388	2,659,592	-	666,381	3,326,361
180	TOTAL NONCURRENT ASSETS	388	2,659,592	-	666,381	3,326,361
190	TOTAL ASSETS	\$ 26,387	\$ 3,357,011	\$ 113,570	\$ 668,156	\$ 4,165,124

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

September 30, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
LIABILITIES AND EQUITY:						
LIABILITIES:						
CURRENT LIABILITIES						
312	Accounts payable ≤ 90 days	\$ 1,834	\$ 21,458	\$ 256	\$ 1,190	\$ 24,738
321	Accrued wages / payroll taxes	2,498	37,154	967	-	40,619
322	Accrued compensated absences - current portion	-	26,862	1,987	-	28,849
331	Accounts payable - HUD PHA programs	-	-	8,080	-	8,080
333	Accounts payable - other government	-	12,917	-	-	12,917
341	Tenant security deposits	-	27,081	-	-	27,081
342	Deferred revenues	-	9,130	-	-	9,130
347	Interprogram due to	-	-	52,801	585	53,386
310	TOTAL CURRENT LIABILITIES	<u>4,332</u>	<u>134,602</u>	<u>64,091</u>	<u>1,775</u>	<u>204,800</u>
354	Accrued compensated absences - non current	-	35,941	-	-	35,941
350	TOTAL NONCURRENT LIABILITIES	-	<u>35,941</u>	-	-	<u>35,941</u>
300	TOTAL LIABILITIES	<u>4,332</u>	<u>170,543</u>	<u>64,091</u>	<u>1,775</u>	<u>240,741</u>

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

September 30, 2004

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Low Rent Public Housing</u>	<u>Housing Choice Vouchers</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
EQUITY:						
Contributed Capital:						
508.1	Investment in capital assets, net of related debt	388	2,659,592	-	666,381	3,326,361
512.1	Unrestricted net assets	<u>21,667</u>	<u>526,876</u>	<u>49,479</u>	<u>-</u>	<u>598,022</u>
513	TOTAL EQUITY	<u>22,055</u>	<u>3,186,468</u>	<u>49,479</u>	<u>666,381</u>	<u>3,924,383</u>
600	TOTAL LIABILITIES AND EQUITY	<u>\$ 26,387</u>	<u>\$ 3,357,011</u>	<u>\$ 113,570</u>	<u>\$ 668,156</u>	<u>\$ 4,165,124</u>

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

For the Year Ended September 30, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
REVENUE:						
703	Net tenant rental revenue	\$ -	\$ 491,225	\$ -	\$ -	\$ 491,225
704	Tenant revenue - other	-	12,746	-	-	12,746
705	Total tenant revenue	-	503,971	-	-	503,971
706	HUD PHA grants	-	598,916	177,447	26,222	802,585
706.1	Capital grants	-	-	-	314,101	314,101
711	Investment income - unrestricted	309	10,981	1,382	-	12,672
715	Other revenue	25,543	41,902	2,458	-	69,903
716	Gain/loss on sale of fixed assets	-	(311)	-	-	(311)
720	Investment income - restricted	-	-	225	-	225
700	TOTAL REVENUE	25,852	1,155,459	181,512	340,323	1,703,146
EXPENSES:						
Administrative						
911	Administrative salaries	18,681	150,752	9,560	-	178,993
912	Auditing fees	2,610	2,500	500	-	5,610
914	Compensated absences	-	35,273	1,091	-	36,364
915	Employee benefit contributions- administrative	1,707	46,707	2,697	-	51,111
916	Other operating- administrative	12,069	74,662	7,028	969	94,728
	Total Administrative	35,067	309,894	20,876	969	366,806

See accompanying notes to financial statements

MARQUETTE HOUSING COMMISSION

Enterprise Fund
Financial Data Schedule

For the Year Ended September 30, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Tenant services						
924	Tenant services - other	-	3,085	-	-	3,085
Utilities						
931	Water	-	53,583	-	-	53,583
932	Electricity	-	78,937	-	-	78,937
933	Gas	-	153,571	-	-	153,571
938	Other utilities expense	-	3,208	-	-	3,208
	Total Utilities	-	289,299	-	-	289,299
Maintenance						
941	Ordinary maintenance and operations - labor	-	220,062	-	-	220,062
942	Ordinary maintenance and operations - materials & other	-	48,341	-	-	48,341
943	Ordinary maintenance and operations - contract costs	-	76,515	-	-	76,515
945	Employee benefit contributions- ordinary maintenance	-	70,292	-	-	70,292
	Total Maintenance	-	415,210	-	-	415,210

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

For the Year Ended September 30, 2004

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Low Rent Public Housing</u>	<u>Housing Choice Vouchers</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
General expenses						
961	Insurance premiums	-	66,435	1,000	-	67,435
963	Payments in lieu of taxes	-	12,917	-	-	12,917
964	Bad debt - tenant rents	-	20,464	-	-	20,464
	Total General Expenses	-	99,816	1,000	-	100,816
969	TOTAL OPERATING EXPENSES	35,067	1,117,304	21,876	969	1,175,216
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(9,215)	38,155	159,636	339,354	527,930
971	Extraordinary maintenance	-	5,105	-	-	5,105
973	Housing assistance payments	-	-	153,453	-	153,453
974	Depreciation expense	141	376,340	-	31,648	408,129
900	TOTAL EXPENSES	35,208	1,498,749	175,329	32,617	1,741,903
Other financing sources (uses)						
1001	Operating transfers in	25,253	-	-	-	25,253
1002	Operating transfers out	-	-	-	(25,253)	(25,253)
1010	Total other financing sources (uses)	25,253	-	-	(25,253)	-

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

For the Year Ended September 30, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ 15,897	\$ (343,290)	\$ 6,183	\$ 282,453	\$ (38,757)
MEMO account information						
1103	Beginning equity	6,158	3,087,398	43,297	824,092	3,960,945
1104	Prior Period Adjustments, Equity Transfers	-	442,360	(1)	(440,164)	2,195
1113	Maximum Annual Contributions Commitment (Per ACC)	-	-	182,022	-	182,022
1115	Contingency Reserve, ACC Program Reserve	-	-	14,339	-	14,339
1116	Total Annual Contributions Available	-	-	196,361	-	196,361
1120	Unit months available	-	3,048	600	-	3,648
1121	Number of unit months leased	-	2,970	573	-	3,543

See accompanying notes to financial statements

MARQUETTE HOUSING COMMISSION

FEDERAL AUDIT REPORTS

For the Year Ended September 30, 2004

**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



MARQUETTE HOUSING COMMISSION

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"**

Board of Commissioners
Marquette Housing Commission
Marquette, Michigan

We have audited the financial statements of the business-type activities of Marquette Housing Commission, as of and for the year ended September 30, 2004, which collectively comprise the Marquette Housing Commission, basic financial statements and have issued our report thereon dated December 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Marquette Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under "Government Auditing Standards". However, we noted certain immaterial instances of noncompliance that we have reported to management of the Marquette Housing Commission in a separate letter dated December 30, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marquette Housing Commission's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Marquette Housing Commission, in a separate letter dated December 30, 2004.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

December 30, 2004



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Board of Commissioners
Marquette Housing Commission
Marquette, Michigan

Compliance

We have audited the compliance of Marquette Housing Commission with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended September 30, 2004. Marquette Housing Commission's major federal programs are identified in the summary of Auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Marquette Housing Commission's management. Our responsibility is to express an opinion on Marquette Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marquette Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marquette Housing Commission's compliance with those requirements.

In our opinion Marquette Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of Marquette Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Marquette Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants, that would be material in relation to a major federal program being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

December 30, 2004

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



MARQUETTE HOUSING COMMISSION

Year End: September 30, 2004

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Federal Grantor/Pass Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Expended as of 9-30-03</u>	<u>9-30-04 Federal Expenditures</u>
Operating Subsidy	14.850	<u>598,916</u>	-	\$ <u>598,916</u>
Section 8 Rental Voucher	14.871	<u>177,447</u>	-	<u>177,447</u>
Capital Funding	14.872			
2002		504,926	408,147	96,779
2003		<u>483,732</u>	-	<u>243,544</u>
		<u>988,658</u>	<u>408,147</u>	<u>340,323</u>
Total Department of Housing and Urban Development				\$ <u>1,116,686</u>
TOTAL FEDERAL EXPENDITURES				\$ <u>1,116,686</u>

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See accompanying notes to the schedule of expenditures of federal awards.

MARQUETTE HOUSING COMMISSION

NOTES TO SCHEDULE OF FEDERAL FINANCIAL AWARDS

For the Year Ended September 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Marquette Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B - COST REPORTS

Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the modernization cost reports.

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MARQUETTE HOUSING COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2004

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion of the general purpose financial statements of the Marquette Housing Commission.
2. There were no reportable conditions relating to the audit of the general purpose financial statements.
3. There were no instances of noncompliance material to the general purpose financial statements of the Marquette Housing Commission.
4. There were no reportable conditions relating to the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Marquette Housing Commission expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Marquette Housing Commission.
7. The programs tested as major programs included:
 - A. Capital Funding – CFDA 14.872
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Marquette Housing Commission was determined to be a low-risk auditee.

B. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no findings or questioned costs.

C. PRIOR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no prior findings or questioned costs.

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A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

December 30, 2004

Board of Commissioners
Marquette Housing Commission
Marquette, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Marquette Housing Commission for the year ended September 30, 2004, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 30, 2004, on the financial statements of the Marquette Housing Commission.

1. During the review of cash disbursements it was noted that the original credit card charge slips were not attached to the appropriate credit card invoices. It was also noted that those invoices with more than one page were only stamped "Paid" on the first invoice.

Recommendation

Policies and procedures should require original credit card charge slips to be submitted and attached to the invoice from the credit card company when received. If additional copies are needed for employee reimbursement folders, then copies should be made and files in those alternative locations. The original charge slips should always be attached to the invoice.

Additionally, invoices with more than one sheet should have be stamped on all subsequent sheets, not just the first invoice.

2. During the audit it was noted that the Certificates of Deposit (CD) were not locked in a secure location.

Recommendation

All CD's should be locked in a secured lock box or filing cabinet with limited access. These CD's should not be readily accessible by all staff members. The Commission has an obligation to maintain custody of its assets and have controls in place to make sure that it is safekeeping its assets.

3. During the review of cash and investments it was noted that although the Commission had depository agreements in place with the banks it does business with, the Commission's funds were not fully collateralized as required by HUD.

Recommendation

The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000. Although the Commission had depository agreements signed with each of its banks, it did not follow-up with them to verify that they had those funds in excess of \$100,000 insured. At September 30, 2004, the Commission had funds in excess of insured amounts totaling \$371,801. The Commission should require its banks to provide documentation of collateral at a minimum on a quarterly basis. It is imperative that the Commission monitor its cash and investments continuously to verify that the collateral provided by the banks are adequate throughout the year.

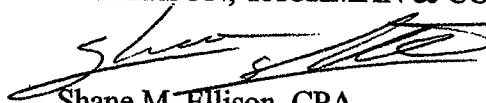
As of December 30, 2004, the Director had made changes and had taken steps to correct this matter. The Director had begun monitoring the cash and investment balances and requesting collateralization from the banks.

Marquette Housing Commission
December 30, 2004
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We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC

A handwritten signature in black ink, appearing to read "Shane M. Ellison", is written over a horizontal line.

Shane M. Ellison, CPA
Principal